LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6012 **NOTE PREPARED:** Sep 28, 2006
BILL NUMBER: HB 1377 **BILL AMENDED:**

SUBJECT: Inheritance Tax Exemption.

FIRST AUTHOR: Rep. Grubb **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill increases the Inheritance Tax exemption for Class A transferees from $100,000 to $200,000.

Effective Date: July 1, 2007.

Summary of Net State Impact: Under the bill, Indiana Inheritance Tax revenues will decrease beginning in FY 2009. The bill is expected to increase state General Fund expenditures on county Inheritance Tax replacement. The net state impact of the bill is summarized in the table below.

	FY 2009	FY 2010 and after
Inheritance Tax	($15.4 M - $18.6 M)	($15.4 M - $18.6 M)
Add'l. County Replacement Expenditures	0	(0.09 M - 0.12 M)
Net Increase (Decrease)	($15.4 M - $18.6 M)	($15.5 M - $18.7 M)

Explanation of State Expenditures: *County Inheritance Tax Replacement:* The bill could potentially increase expenditures from the state General Fund for county Inheritance Tax replacement by approximately $90,000 to $120,000 annually beginning in FY 2010. (Note: Replacement payments are made in the fiscal year following the fiscal year in which counties experience revenue shortages.) Necessary replacement funding may vary depending on whether, and by how much, each county's base revenue differs from the amount guaranteed under current statute. (See *Explanation of Local Revenues*, below, for an explanation of county revenue loss and replacement procedures.)

Explanation of State Revenues: *Summary:* The bill is estimated to reduce Inheritance Tax revenue by approximately $15.4 M to $18.6 M annually beginning in FY 2009.

Background: The bill increases the exemption for Class A beneficiaries from $100,000 to $200,000. Under current statute, a Class A beneficiary is a lineal descendant, including a step child or an adopted child. The increase in the exemption is effective for transfers of decedents who die on or after July 1, 2007. Since the Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5 percent early payment discount), the initial fiscal impact of increasing the exemption would lag the change by about one year. Thus, the bulk of the initial fiscal impact would arise in FY 2009.

The estimated fiscal impact of the exemption increase is based on the Office of Fiscal and Management Analysis (OFMA) Inheritance Tax database and the Revenue Technical Committee's FY 2007 forecast (published December 14, 2005). The forecast estimates FY 2007 Inheritance Tax at $140.0 M. The estimated revenue loss assumes that Inheritance Tax revenues would remain relatively constant after FY 2007 absent the increased exemption. The Inheritance Tax database is comprised of about 336,000 records of transferees receiving assets from a decedent who died between July 1, 1997, and December 31, 2005. Annual sample totals suggest that Class A beneficiaries account for about 44.7% of annual Inheritance Tax revenue (about $62.6 M of the forecast amount). About 99.1% of total Inheritance Tax collections are from Indiana residents. Since counties retain 8% of resident Inheritance Tax, annual county collections from Class A beneficiaries are estimated to total about $5.4 M. Simulations with the sample returns suggest that the exemption increase could reduce revenue from Class A beneficiaries by about 24.6% to 29.7%.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary:* The increase in the Class A exemption could potentially result in the net impact to counties summarized in the table below.

	FY 2009	**FY 2010 and after**
Inheritance Tax	($1.3 M - $1.6 M)	($1.3 M - $1.6 M)
Add'l. County Replacement Payments	0	(0.09 M - 0.12 M)
Net Increase (Decrease)	($1.3 M - $1.6 M)	($1.2 M - $1.5 M)

Background: Counties retain 8% of the Inheritance Tax collected on transfers made by Indiana residents, and are guaranteed a statutorily determined amount from the Inheritance Tax under the replacement provision established by P.L. 254-1997. This legislation increased the Class A exemption to $100,000 effective July 1, 1997, and required the state to annually transfer money from the state General Fund to counties to replace county Inheritance Tax revenue lost due to the exemption increase. The replacement provision guarantees that each county receive an amount of Inheritance Tax revenue equal to the five-year annual average amount of Inheritance Tax received by that county from FY 1991 to FY 1997, excluding the highest year and lowest year from the computation. The total annual guarantee to counties is approximately $7.4 M, with replacement payments averaging about $208,000 since FY 2000. The bill is estimated to reduce Inheritance Tax revenue to counties by about $1.3 M to $1.6 M annually beginning in FY 2009. However, the reductions in county

Inheritance Tax are expected to trigger additional Inheritance Tax replacement payments from the state General Fund totaling about $90,000 to $120,000 annually beginning in FY 2010. (Note: Replacement payments are made in the fiscal year following the fiscal year in which counties experience revenue shortages.)

A copy of the spreadsheet showing the amount of Inheritance Tax replacement guaranteed to each county under P.L. 254-1997 is available from the Office of Fiscal and Management Analysis.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: State Revenue Forecast (December 14, 2005); OFMA Inheritance Tax database.

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